

AUGUST 15, 1983

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Forbes

**MEXICO:
THE CRISIS
THAT WON'T
GO AWAY**



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August 15, 1983
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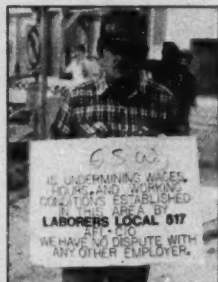
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Why are tuition bills taking such a big bite out of your budget? Look at the way endowment fund managers are pussyfooting around the great bull market.

Campus cop-out

By Richard Phalon

EVER SINCE THEIR stock portfolios took a drubbing in the great market break of 1973-74, many college endowment fund managers have cast equities in the same rowdy milieu as rugby players: It's nice to have a few around to add a bit of dash to the trustees' Christmas party, but not so many that you have to worry about broken furniture.

The caution shows in the numbers. There are 218 endowment pools tracked by the National Association of College & University Business Officers with combined endowments of almost \$17 billion. In the nine years ended in June 1982 their investment managers cut their stock holdings by 25%. Bond holdings, on the other hand, increased by nearly 20%.

The caution shows in the performance figures, too—and shows unfavorably. According to NACUBO's most recent report, in only four of the nine years since the great rout of 1974 have the 218 endowments done better than the stock market as a whole. The shift into fixed income wasn't much help, either. In only four of those nine years did the endowments do better than the bond market. Worse, the universities as a group failed to keep up with inflation.

At some well-heeled universities—Harvard, for one—endowment income can cover as much as 23% of the operating budget. Thus, the failure of many financial officers to wring maximum returns from donations of loyal alumni is one of the reasons tuition bills at most private colleges—a freshman at Yale pays \$9,050 a year, for example, and even at Notre Dame an undergraduate pays \$6,450—have gone through the roof.

With university costs rising on all fronts, the incentives for sharper investment performance could not be clearer, and many universities are working very hard at reshaping their portfolios. The fact remains, though, that more than three-quarters of the 218 investment pools followed by the business officers association were less than 65% invested in common stocks on June 30, 1982, on the eve of the great bull market that has pushed the average to record highs. More than a third had less than half their money invested in stocks. Even when it finally became clear that stocks had really taken off, much of academe was too rooted in timidity to respond. The final numbers for the fiscal year ended this June 30 won't be out for months (see chart for estimates). At a quick glance, the numbers don't look bad,

Better to sleep well than eat well?

Champagne toasts at the university club would seem to be in order. The ten largest endowments average an over-40% appreciation for the 12 months ending June 30. But before draining the bottle, it should be a sobering thought to fund managers that the S&P's 500 index was up 61%.

1981-82

1982-83*

Institution	Endowment (\$billions)					% Increase
	0.5	1.0	1.5	2.0	2.5	
Harvard University						40-45%
University of Texas system						30-35
Princeton University						42
Yale University						45
Stanford University						45
Columbia University						18
Massachusetts Institute of Technology						45
University of Chicago						43
Northwestern University						51
Rice University						39

*6/82 to 6/83 figures are estimates.

Sources: National Association of College & University Business Officers (1982 figures); universities (1983 figures)

Staying with the oils

The oil price blowout caught a number of college endowment money managers flat-footed. A quick sampling finds Rockefeller University carrying large blocks of Exxon, Mobil, SoCal and Standard Oil of Indiana. The University of Pennsylvania recently had 30% of its equity in oil.

John B. Neff of the Windsor Fund, the chairman of Penn's investment board, candidly admits, "We have labored with that oil position." Neff has averaged down on the oil stocks in the hope of taking advantage of any turnaround in the market.

The most vulnerable of all to oil price fluctuations is the University of Texas system. Its \$2 billion endowment, second only to Harvard's, includes nearly a million acres of oil land. That resource pumps over \$150 million a year into its endowment. UT's oil royalties are down some 15% from the previous year. An even bigger effect has been felt because of a drop in bonus payments from auctioning off drilling rights. Even the ultraconservative financial trustees of UT realize it might be a good idea to do some secondary diversifying out of oil these days.—Jon Schriber

but this kind of bull market pulls everybody up. The fact remains that few of the endowments did as well as the popular averages and virtually none of them beat them. It may well be that the endowment fund managers will turn more venturesome in the months ahead. At the moment, though, experts like George F. Keane, president of the Common Fund—which provides investment management for more than 300 schools—have spotted "no big move in terms of stock allocations." John Packard of Scudder, Stevens & Clark's asset management group concurs: "I don't think the change in equity positions overall has changed much more than 5% to 7%."

Part of the problem is that many of the funds are oriented to current income, a reflection of the generally losing battle with rising operating costs. The need for jam today tends to push endowment managers into bonds or high-yielding but slow-growth utilities in periods when the smartest play might be elsewhere. In all too many cases, the Prudent-Man rules that bind college trustees seem to be merely a synonym for risk aversion. In terms of the old Wall Street saw, many college trustees would clearly rather sleep well than eat well. Yet experience shows that caution is not necessarily the best policy. In general, the best long-term performances have come from big, heavily stock-oriented endowments whose objectives are a "total return" blend of capital gains and dividend income.

Some of the best numbers came from an endowment that has long since broken out of the traditional mold—the University of Rochester. The university had a big leg up, it's true, gifts of Eastman Kodak from the hometown wizard George Eastman.

Given the respectability of the stock (and the low 1930s prices at which it got the stock), Rochester could easily have fallen into the same trap as Atlanta's Emory University.

The latter has never sold a share of the big Coca-Cola benefactions that now account for about 60% of its \$400 million portfolio. Emory's Coke dividends kept rising, but there were long periods when the stock did not.

Rochester trustees, on the other hand, over the years began to realize the potential dangers of the one-egg basket. Profits from the sale of some EK went into the stock of still another local up-and-comer, Xerox. As recently as 1971, according to Paul Lewis, investment vice president, Kodak and Xerox together accounted for about 50% of the university's endowment, but under a carefully tailored diversification plan Rochester sold off the last of the Xerox stock this winter. Kodak has been cut to the point where it accounts for only 3% of Rochester's \$650 million endowment.

The results: Rochester's endowment fund has increased in value 65% from this time last year. All that growth has come from an unabashed

decision to take the risks that accompany long-term growth. Rochester's portfolio is chockablock with dandy little items like Apollo Computer, Inc., Convergent Technologies and MCI Communications.

Hand it to the Rochester boys: They are pragmatists, not dogmatists. Far from being permanently wed to small-growth stocks, they recognize that the market moves in cycles. Phil Horsley and Kevin Keogh, who manage the venture side of the Rochester portfolio, definitely think this might be a good time to take and recycle some profits.

So do Stanford, Princeton and Dartmouth, among others, which have also moved more aggressively into stocks over the last several years. As usual, however, the herd is late in catching on. On past form, by the time other trustees discover there is money to be made in equities, the market will once again have passed them by. ■



Rochester endowment managers Kevin Keogh, Paul Lewis and Phil Horsley
Pragmatists beat dogmatists every time.

When a company has no earnings and very little in the way of product, it's tough to put a price on its stock.

What's your Ph.D. ratio?

By Paul Bornstein

WHEN CETUS, one of the nation's largest genetic engineering firms, went public in March 1981, it raised \$119 million. At the time, that was the biggest initial public offering ever—and the California-based research firm didn't even make a marketable product. "The

only way to value the company was by the number of Ph.D.s it employed," says Steven Reed of Bateman Eichler, Hill Richards.

Welcome to the wonderful world of biotechnology companies. Welcome to an investment fairyland where hopes and dreams count for more than reality.

In the accompanying table, we ex-

amine 20 of these hot new biotechnology stars. But it isn't a typical financial analysis. How could it be? Conventional statistics such as revenue, book value, earnings and price/earnings ratios are meaningless. What is a dream worth? What's the right P/E for fantasy?

Genetic engineering and monoclonal antibodies are the two major segments of this new technology. Understanding a little bit about each helps you appreciate why these companies are a concept that excites many brokers. Through genetic engineering it is possible to move the hereditary material of cells—called DNA—from one organism to another. When the new cell replicates, it retains the characteristics of the original cell.

But never mind the details. All that investors and speculators care about is the resulting potential for thousands of exciting products. Down the biotech pipeline, so the optimists say, there may well be everything from more nutritious corn and seedless watermelons to an improved vaccine for hepatitis.

One of the most exciting genetic

A shopping list full of cells

These 20 biotechnology firms let investors play venture capitalist. Their assets amount to little more than R&D potential, and stock prices are based on the promise of new products. Dean Witter's Karl-Holderreed Biotech-

nology Stock Index has gone up 154% since last August. As the final two columns indicate, investors typically contribute a far larger portion of capital than they receive in equity. Needless to say, risks abound.

Company/primary focus	Market value (millions)	—Offering— price (date)	52-week price range†	Recent price	Cash and cash equiv per share	% capital contributed by public	% equity owned by public
Amgen/genetic engineering	\$140	18 (6/83)	18 – 12½	13¾	\$4.27	68.6%	22.5%
Applied Biosystems/instrumentation	73	17 (6/83)	19 – 14	15¾	3.72	73.4	28.0
Bio-Response/monoclonal antibodies	110	2½ (10/79)*	16½ – 3½	14	1.66	44.4	25.7
Biogen NV/genetic engineering	292	23 (3/83)	24½ – 14½	15½	2.93	44.0	13.5
Biotech Res Labs/monoclonal antibodies	80	3½ (3/81)	21½ – 2½	15½	0.50	23.0	30.0
Centocor/monoclonal antibodies	122	14 (12/82)	25½ – 13½	17½	1.70	75.0	23.7
Cetus/genetic engineering	380	23 (3/81)	19 – 7½	17¼	3.98	82.6	22.8
Collaborative Res/genetic engineering	128	11 (2/82)	15½ – 7½	13	2.82	70.0	16.0
Damon Biotech/monoclonal antibodies	307	17 (6/83)	17½ – 14¼	16	2.13	99.6	12.5
Enzo Biochem/genetic engineering	261	1 (6/80)	33¼ – 5¼	30	2.64	62.0	38.0
Genentech/genetic engineering	655	23½ (10/80)	49¼ – 18	46½	2.66	74.5	13.4
Genetic Engineering/genetic engineering	18	5 (1/81)*	10¾ – 2½	8½	0.47	40.0	60.0
Genetic Systems/monoclonal antibodies	224	2 (6/81)*	17¼ – 2½	14	0.84	78.0	22.0
Genex/genetic engineering	250	9½ (9/82)	20½ – 7	19¼	2.97	66.0	20.8
Hybritech/monoclonal antibodies	273	11 (10/81)	31 – 10¾	27¼	3.94	49.0	13.0
Molecular Genetics/genetic engineering	115	9 (6/82)	23 – 5	18¼	0.43	43.3	9.1
Monoclonal Antibodies/mono antibod	45	10 (8/81)	28½ – 8	18¾	0.68	82.3	23.5
Ribi ImmunoChem Res/biomed	39	2 (5/81)	16½ – 2½	13	0.99	95.8	32.9
Vega Biotechnologies/instrumentation	20	6 (6/83)	11¼ – 6	8	2.59	46.0	41.0
Viratek/genetic engineering	47	7 (5/81)	20¼ – 5¼	15	0.05	84.4	20.0

*Offered as a unit. †Or most recent price range.

Sources: Standard & Poor's; companies' prospectuses.

Statistical Spotlight

engineering applications involves monoclonal antibodies. This exotic field is a specialty of seven of the companies in our table. Antibodies are proteins used to neutralize foreign substances in the body. Monoclonal antibodies can be grown from a single cell source to attack a specific substance, with profound medical applications. Scientists can harness the body's own defense mechanism to prevent disease.

But when? And how much? And who? Those are some embarrassing questions.

Right now, only a few biotechnology companies have federal approval to market anything. Genentech launched its human insulin in 1982. Soon after, Cetus and Molecular Genetics introduced products to prevent diseases that attack newborn pigs and calves. Using related biotechnologies, Ribic ImmunoChem has a product to treat cancer in cattle and horses. There is a limited market for all this, however. What genetic engineering companies are really after is the treatment of cancer and heart disease in humans.

The situation among monoclonal antibody firms is much the same. Centocor, Hybritech, Genetic Systems and Monoclonal Antibodies now sell diagnostic test kits for pregnancy, venereal disease or certain types of cancer. Enzo Biochem will soon seek FDA approval for similar methods of detecting herpes and hepatitis. The hope is that these fledgling products will generate enough revenue to support further research for therapeutic items of much wider application.

Now back to our table. Obviously no numbers will tell how smart a particular company's scientists are or whose researchers are apt to make a major breakthrough. But some comparisons are possible. Market value figures, for example, indicate that investors still hold Genentech in highest esteem. The company has a combined market value over \$650 million—roughly the same as Bausch & Lomb. By contrast, several of the industry's smaller firms have values well below \$100 million. Could they be acquisition targets?

Thanks to investor enthusiasm for technology stocks, nearly all of these companies are trading comfortably above their offering prices. But Amgen, Applied Biosystems, Cetus and Damon Biotech sell at discounts.

Discounted dreams? It might al-

ready be happening.

Next look at the cash-per-share figures. Anyone who invests in this industry basically hands over his money and says, "Discover something that will make us both rich." But when you buy Viratek at \$15 per share, management has a mere 5 cents of that amount to play with, while a \$13 stake in Amgen will bankroll \$4 worth of research.

Finally, pay attention to the last two columns. It is always worthwhile

to know how much faith the promoters have in their promotion. For most of the companies on the list, the public has put up well over half of the money. But how much did investors get in return? Seldom more than 25% of the equity. Those aren't comfortable ratios.

Most important of all: Know that you are shooting craps even with the best of these stocks—and at these prices the odds are stacked heavily against you. ■

Brokers love to cook up mathematical schemes for beating the market. Here's a favorite recipe, and why it won't work.

The dollar-cost sure thing

By William Baldwin

NOW THAT STOCKS are back in style, one of the securities industry's oldest sales gimmicks is making a comeback: "dollar-cost averaging." You put a fixed dollar amount into a given investment every month for a long time. At the end, through all the ups and downs, you probably have made no killing. But you can be sure—so it is claimed—of having picked up shares at a bargain average price. "Dollar-cost averaging is a mathematical certainty," says Connie S.P. Chen of Chen Planning Consultants in New York City. "It's a sound and proven technique."

The technique can be applied at many mutual funds, which welcome customers who want to set aside a level contribution of, say, \$200 or \$1,000 a month. The fund sponsor keeps track of fractional shares. Merrill Lynch makes the same kind of buying possible for individual stocks and precious metals, through its Sharebuilder Plan. The program, which has gathered almost \$2 billion, is suitable for dollar-cost averages who put in as little as \$25 every month, and even offers discounts on commissions.

Here is the attraction, as stated by James Fullerton, vice chairman of Capital Research & Management, which runs the \$7 billion American group of mutual funds: "If you dollar-cost average, you will buy shares at a lower average cost than the average price of the shares on the days on which you buy."

An exaggerated example will illustrate the arithmetic. An investor puts \$120 a month into a fund for three months. The first month the shares are at \$5, the next month at \$30, the third at \$10. The average of these three prices is \$15. But the dollar-cost player gets 24 shares the first month, 4 the next, 12 the third, a total of 40 for his \$360 investment. Presto, his average cost is only \$9.

For a real-life illustration, look at the chart on the next page. If only you had put \$100 a month into Chrysler for a decade, beginning in 1973, you would be in the catbird seat now, what with the stock trading near 32 today. That is less than it was at the beginning of this period. But if you had hung in, you would have more than made up for it by getting larger blocks of stock whenever the price was a bargain.

The beauty part is that the state-